

CAR FINANCING SCAMS

When buying a car, don't be misled by cost comparisons between financing and paying cash.

Some car dealers may use fancy computer printouts to show that financing a car is a better deal than paying cash for it. Beware. The numbers may look good, but the bottom line isn't. Although there may be good reasons to finance a car or other expensive items, it is not usually because it saves money.

The Federal Trade Commission (FTC) has taken action against a company that distributed computer software used to misrepresent the "savings" of financing versus paying cash for a car. Some auto dealerships across the country may be using similar software. This is a good reason to consider buying from a local reputable dealership.

The computerized cost comparison seems to "prove" you can save money by financing at one rate and investing the cash not spent in a certificate of deposit (CD) at a lower rate. But can you really come out ahead by borrowing at one rate and investing at a lower rate?

No, you cannot. This comparison leaves out a crucial point. When you pay cash, you have no monthly payments to make. If each month you invest an amount equal to the car payment, the total you accumulate will be more than the value of the CD described above. In the end, paying interest on a loan always costs you more -- unless you can invest your cash at an interest rate higher than the loan rate.

You may, however, find it advantageous to finance your car. Many car buyers prefer taking out loans to paying cash for any of the following reasons:

- You may need your cash for other purposes, such as paying for other products or services, maintaining a better cash flow, or building a "cash cushion" for such things as emergencies or college tuition.
- You may be able to buy a more expensive car by using financing.
- Under some circumstances, if you finance a car that develops a serious problem, you may not have to continue making payments. (Do not, however, assume this is the case without getting all of the information.)

Be aware, however, that car salespeople may be earning commissions when they convince you to finance a car through their dealership. Think carefully about any claims that financing a car can save you money.

The FTC publishes a number of brochures on credit and car buying issues. To order, contact: Public Reference, Federal Trade Commission, Washington DC 20508.

If you have questions or problems about the way auto dealers present cost comparisons between financing and paying cash, call the Attorney General's Consumer Protection Division at 701-328-3404, 701-328-3409 (TDD), or toll free at 1-800-472-2600.